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September 10, 2004

Hand Delivery

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: KeySpan Energy Delivery New England, D.T.E. 04-62

Dear Ms. Cottrell

Enclosed for filing are an original and thirteen (13) copies of the Reply Brief of KeySpan Energy Delivery in the above-referenced proceeding.

Thank you for your attention to this matter.

Very truly yours,

Cheryl M. Kimball

Enclosure

cc: Service List

KeySpan Energy Delivery New England	)	D.T.E. 04-62

REPLY BRIEF OF KEYSPAN ENERGY DELIVERY

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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

KeySpan Energy Delivery New England	)	D.T.E. 04-62

REPLY BRIEF OF KEYSPAN ENERGY DELIVERY

I. INTRODUCTION

On June 17, 2004, KeySpan Energy Delivery New England[1] ("KeySpan" or the "Company") filed a petition with the Department of Telecommunications and Energy (the "Department") pursuant to 220 C.M.R. 5.00 et seq. and 220 C.M.R. 6.00 et seq. for approval of a consolidated Cost of Gas Adjustment ("CGA") Clause, a consolidated Local Distribution Adjustment Clause ("LDAC"), consolidated Distribution Terms and Conditions and standardized rate tariff formats for all customer classes. On September 2, 2004, the Company and the Office of the Attorney General (the "Attorney General") filed initial comments in accordance with the procedural schedule established by the Department for this proceeding. Set forth herein are KeySpan's reply comments addressing the claims of the Attorney General.[2]

In this proceeding, the Attorney General is requesting that the Department deny the Company's petition in its entirety. This request is based on a series of misguided and

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1 In Massachusetts, KeySpan Energy Delivery New England includes the operations of Boston Gas Company, Colonial Gas Company and Essex Gas Company, each doing business as KeySpan Energy Delivery New England.

2 The Company does not intend that its silence concerning any matter reflects agreement with positions taken by the Attorney General in this proceeding. To the contrary, the Company reasserts the positions and arguments made in its initial post-hearing comments, and addresses only those arguments which the Company believes warrant further response.

erroneous arguments that should be rejected by the Department. These claims are that: (1) the Company will be "double collecting" gas acquisition and planning charges if the consolidation is approved (Attorney General at 4-6); (2) the proposed consolidation will deprive Colonial and Essex customers of savings "promised" in the merger (id. at 6-8); (3) the Company cannot demonstrate that "Essex and Colonial customers are recovering merger savings at a level equal to or greater than the additional costs the Company seeks to recover" (id. at 8-10); (4) the working capital calculation increases costs without "sufficient supporting documentation" (id. at 10-12); (5) the Company's rate tariff language is "too broad" (id. at 12-14); and (6) there are errors in the Company's proposed reconciliation adjustment factor for post-retirement benefits other than pensions ("PBOP") (id. 14-18). Each of these claims is addressed below. However, none of these arguments have any merit and none should be given serious consideration by the Department.

The record in this proceeding shows that the Company's proposal will serve the public interest and ensure that the price charged to customers for gas service is just and reasonable. Accordingly, the Department should approve the Company's request to consolidate the CGAC, LDAC and Distribution Terms and Conditions and to standardize the format for the Company's rate tariffs.

II. ARGUMENT

A. Consolidation of the CGA Will Not Result in an Over-Collection of Gas Acquisition and Planning Costs

The Attorney General claims that the Department's approval of the consolidated CGA will result in the "double recovery" of gas acquisition and planning costs because all of the gas acquisition and planning costs that are incurred by Essex, Colonial and

Boston are being recovered through the rates set for Boston Gas in D.T.E. 03-40 (Attorney General at 5, fn.2). The Attorney General, thus, contends that the gas acquisition and planning costs included in rates charged to Colonial and Essex customers "double collect" the amounts recovered through the Boston Gas rates (id. at 5). The Attorney General claims that, unless the gas acquisition and planning costs collected from Colonial (through base rates and the CGA) and Essex customers (through base rates), are removed from Boston Gas rates, there will be a "double recovery" of gas acquisition and planning costs (id. at 6). Lastly, the Attorney General asserts that the Department should deny the Company's proposal and require the Company to refund the "over-collections" that have occurred since November 2003 (id.).

As discussed in more detail below, the Attorney General's rationale encompasses three fundamental flaws. First, the amounts charged to Boston Gas for gas acquisition and planning costs beginning November 2003 are the costs that Boston Gas would incur for those activities even in the absence of the mergers, i.e., the amounts collected in Boston Gas rates do not recover gas acquisition and planning costs that were incurred by Boston Gas because of the need to serve Essex and Colonial. In fact, the Department's inclusion of these amounts in the Boston Gas rates set in D.T.E. 03-40 ($412,300 in base rates and $483,947 through the CGA) resulted from an explicit determination that these costs were not incremental to Boston Gas as a result of the mergers, and therefore, rightfully belonged in the rates charged to Boston Gas customers. D.T.E. 03-40 at 221-224. Accordingly, there has been no "over-collection" of gas acquisition and planning costs since November 2003.

Second, the Attorney General's rationale misrepresents the fact that gas acquisition and planning costs are an operations and maintenance expense, the recovery of which is determined in a base-rate proceeding. Although gas acquisition and planning costs are recovered through the CGA rather than base rates, under Department precedent, these costs are fixed at test-year levels in a rate case and are not updated each year (like gas costs) to reflect the current level of expenses. Operations and maintenance expenses were last reviewed and approved for recovery through Colonial rates in 1993 (a settled base-rate proceeding); and in 1996 for Essex (also a settled base-rate proceeding). As a result of the Department's merger approvals, operations and maintenance expense levels on the Colonial and Essex systems are frozen at the level set in the last base-rate proceedings. Pursuant to the terms of the merger orders, the recovery of operations and maintenance expenses will not be modified (even if costs are no longer incurred) until a base-rate proceeding takes place following the expiration of the rate freeze and rates are reset to reflect a new cost of service. See Eastern-Essex Acquisition, D.T.E. 98-27, at 66-69 (1998); Eastern-Colonial Acquisition, D.T.E. 98-128, at 85 (1999).

Third, the Attorney General's rationale sidesteps the fact that, were the Department to approve the Company's proposal to consolidate the CGA, no change would occur in the amount of gas acquisition and planning costs being recovered by the Company. The Company has offered to maintain its current treatment of gas acquisition and planning costs by setting up a separate (non-consolidated) factor just as the Company will do for bad-debt (see Exhibit DTE-1-42). Accordingly, no change in the current treatment would result from the Department's approval of the consolidated CGA. Thus, in making this claim (and requesting that the amounts recovered through Colonial and

Essex rates be removed from the Boston Gas rates), the Attorney General seeks only to relitigate the Department's incremental cost determination in D.T.E. 03-40.

In that regard, the Attorney General's claim rests almost entirely on a misinterpretation of the Department's incremental cost determination. A brief recap of the incremental cost determination is as follows: The Department approved the merger of Eastern Enterprises and Essex on September 17, 1998. Eastern-Essex Acquisition, D.T.E. 98-27 (1998). During the course of the proceeding, the joint petitioners, i.e., Eastern and Essex, explained to the Department that most, if not all, of the "corporate functions" performed by Essex management prior to the merger would be absorbed by Boston Gas following the merger, but that Boston Gas could complete these tasks without incurring any additional cost because (1) many of the functions would be completed using the more sophisticated information systems owned by Boston Gas; and (2) Boston Gas would use its own resources at a higher efficiency. At the same time, the consolidation of functions within Boston Gas provided Eastern Enterprises the opportunity to achieve cost savings on the Essex system to offset the costs that it had incurred to complete the merger and to extend a 10-year base-rate freeze to Essex customers. D.T.E. 98-27, at 68.

In approving the merger, the Department allowed Eastern Enterprises to retain the savings in operations and maintenance expense resulting from the merger during the rate freeze period to offset the costs of the merger. Id. at 66; D.T.E. 98-27-A, at 4. The Department also recognized that corporate and administrative functions (including gas acquisition and planning) would be consolidated within Boston Gas and found that, throughout the 10-year term of the base-rate, the joint petitioners would assign to Essex

only the "incremental" costs that Boston Gas incurred to perform corporate and administrative functions for Essex, i.e., only those costs that Boston Gas would not have incurred except for the need to serve Essex. D.T.E. 98-27, at 45; id. at 5. The Department found that this arrangement was necessary because it would ensure that Boston Gas customers did not subsidize Essex customers and would still allow merger savings to be allocated to shareholders from the Eastern-Essex merger. D.T.E. 98-27-A at 5.

On July 15, 1999, the Department approved the merger of Eastern Enterprises and Colonial Gas Company. Eastern-Colonial Acquisition, D.T.E. 98-128 (1999). With its approval of that merger, the Department confirmed that it would apply the same incremental cost-allocation principle for the 10-year period of the Colonial base-rate freeze. Therefore, corporate and administrative functions (including gas acquisition and planning) were consolidated into Boston Gas, which in turn was required to allocate to Colonial any incremental costs that it incurred in providing those services to Colonial. D.T.E. 98-128, at 88.

In November 2000, KeySpan acquired the operations of Eastern Enterprises, including the Boston Gas, Colonial and Essex companies. Because KeySpan is a registered public utility holding company under the Public Utility Holding Company Act, KeySpan is required to perform "shared services" through a service company (KeySpan Corporate Services LLC, or "Service Company"). Therefore, KeySpan could not continue to provide shared corporate and administrative functions through Boston Gas to Colonial and Essex, and instead, the Service Company picked up the functions that Boston Gas was performing. However, aside from the change in the "service provider,"

no change in the nature or type of services being provided to Essex and Colonial occurred.

In the rate case, the Company reviewed all of the cost allocations between the Service Company and Colonial and Essex. For Colonial, all costs incurred by the Service Company are assigned or allocated to Colonial from the Service Company based on formulas reviewed by the SEC. However, the SEC formulas do not recognize the ratemaking treatment granted to the Company by the Department in D.T.E. 98-128. Under the ratemaking treatment approved by the Department in that case, only costs that would be incremental to Boston Gas are assigned or allocated to Colonial for ratemaking purposes.

Therefore, certain costs that were incurred by the Service Company, and assigned or allocated to Colonial under the SEC formulas, were allocated to Boston Gas for ratemaking purposes. D.T.E. 03-40, at 220-224. The costs that were allocated to Boston Gas were costs that would have been incurred by the Service Company on behalf of Boston Gas, regardless of Colonial's participation. Id. at 222. Costs that were assigned or allocated to Colonial under the SEC formulas, which are costs that would not have been incurred by the Service Company but for the need to serve Colonial, were appropriately allocated to Colonial and no further adjustment was needed. Id. at 223.

To determine whether costs assigned or allocated to Colonial were incremental, the Company reviewed each project activity and cost item relating to Colonial. Id. A listing of all costs assigned or allocated to Colonial and included in the incremental cost adjustment for Boston Gas, was provided to the Department in D.T.E. 03-40 (Exhibit KEDNE/PJM-2 [supp.] at pages 88-96). This listing highlighted whether a particular line

item was treated as incremental or non-incremental to Boston Gas, with non-incremental being allocated to Boston Gas for ratemaking purposes. Gas acquisition and planning costs are listed in this exhibit and designated as non-incremental to Boston Gas. See Exhibit KEDNE/PJM-2 [supp.] at 95, lines 463KCC.

For each cost item, the Company applied the following criteria to determine whether costs were incremental or non-incremental:

(1) Category 1: If the costs associated with a project activity were directly assigned to Colonial, then the costs were deemed incremental to Boston Gas and were not allocated to Boston Gas for ratemaking purposes;

(2) Category 2: Costs that were related to activities such as field marketing, leak survey, meter operations, or similar activities, were deemed to be incremental to Boston Gas and were not allocated to Boston Gas for ratemaking purposes;

(3) Category 3: If the costs were related to general and administrative activities, corporate management, finance, human resources, legal and similar activities and were not directly assigned, then the costs were determined to be non-incremental to Boston Gas and were allocated to Boston Gas for ratemaking purposes.

D.T.E. 03-40, at 223.

On the Essex system, the SEC formulas do not recognize Essex as an entity that is distinct from Boston Gas, and therefore, no costs were assigned or allocated to Essex under the SEC formulas. Id. However, consistent with the Department's ratemaking treatment relating to the merger, the Company performed the same three-step analysis outlined above. Id. In both cases, gas acquisition and planning costs were treated as a "Category 3" cost or as being non-incremental to Boston Gas.

In D.T.E. 03-40, the Department found: (1) that the Company's cost allocation methodology was consistent with the SEC and the Department's directives in D.T.E. 98-27-A and D.T.E. 98-128 (D.T.E. 03-40, at 222); (2) that the Company's method of

determining incremental versus non-incremental costs pertaining to Colonial and Essex was reasonable (id. at 223); and (3) that the Boston Gas cost-of-service should be adjusted to recover the non-incremental costs (including gas acquisition and planning costs) (id. at 224).

Therefore, the Attorney General's claim that the Company's recovery of gas acquisition and planning costs through Colonial and Essex rates "double counts" the amounts recovered through Boston Gas rates ignores the interrelated rulings of the Department in the merger cases (D.T.E. 98-27 and D.T.E. 98-128) and the Boston Gas base-rate proceeding (D.T.E. 03-40). In combination, these rulings allow the Company to (1) reduce operations and maintenance expense (including gas acquisition and planning costs) on the Colonial and Essex systems without modification of the rates charged to customers until the next base-rate proceeding; (2) provide gas acquisition and planning services to the Colonial and Essex systems through the Service Company (which stands in the place of Boston Gas); and (3) charge Boston Gas customers for the total cost incurred by Boston Gas (through the Service Company), unless incremental amounts are incurred to meet the needs of Colonial and Essex. The Department's approval of a consolidated CGA will not change or affect this framework. Thus, the Attorney General should not be allowed to relitigate these policy determinations in this proceeding.

B. Consolidation of the CGA Will Not Deny Customers "Promised" Merger-Related Savings

The Attorney General claims that consolidation of the Company's CGA will deny Colonial and Essex customers the merger-related savings "promised" in the companies' merger rate plans (Attorney General at 6). The Attorney General maintains that the

merger benefits for customers were quantified in two categories: (1) 10-year base-rate freezes; and (2) "burner-tip" gas cost savings (id.). The Attorney General states that burner-tip savings for Essex customers were "estimated" to total $2.35 million annually for a total of $23.5 million over the 10-year base-rate freeze period (id. at 6-7). For Colonial, the Attorney General claims that burner-tip savings "estimates" were approximately $4.0 million annually with a total of $37 million over the ten years of the rate plan (id. at 7). According to the Attorney General, the "promised" gas cost savings will not be realized by Colonial and Essex customers because these customers would experience an immediate burner-tip price increase as a result of a consolidated CGA (id. at 7-8). However, on this issue, the Attorney General has (1) ignored the fact that Colonial and Essex customers have received significant cost savings since the mergers, which were approved by the Department under a no net harm standard; and (2) misrepresented both the joint petitioners' proposals and the Department's findings in the merger cases as to "estimated" savings. As a result, the Attorney General's claims on this issue are without merit and should be rejected by the Department.

Fist, Colonial and Essex customers have received significant gas-costs savings as a result of the mergers and none of these savings were required in order for the joint petitioners to have met the Department's merger-approval standard or to collect merger costs under that standard. In fact, on both the Colonial and Essex systems, all of "estimated" annual savings were achieved or exceeded. However, since the mergers, both systems have experienced load growth not anticipated in the merger projections. See, Exhibit KED/EDA-1, at 18; Exhs. DTE 1-20; DTE 1-21; DTE 1-22. This load growth is being served through the integrated portfolio. Therefore, the consolidated CGA

effectively charges Colonial and Essex for the cost of the incremental capacity that they need to meet load growth that has occurred since the mergers. The cost of this "incremental capacity" is offset by merger savings so that, in the aggregate, customers are still paying less than they would have in the absence of the mergers (Exhibit KED/EDA-6) (standalone cost analysis).

For example, the Attorney General has correctly noted that the estimated gas cost savings for Essex totaled approximately $2.35 million per year or $23.5 million over the 10-year term of the rate freeze. D.T.E. 98-27, at 26. Actual demand cost reductions totaled $4.25 million per year (Exh. KED/EDA-1, at 21-22). Thus, after six years, Essex customers have benefited from demand cost reductions in the CGA of approximately $25.5 million, which exceeds the amount projected in the merger proceeding for the entire 10-year period. Following consolidation of the CGA, Essex customers will continue to experience approximately $360,000 per year in merger-related gas-cost savings as compared to its stand-alone costs, which are uncontested by the Attorney General (Exh. KED/EDA-1, at 21, Column E).

Similarly, for Colonial customers, the Company estimated that gas cost savings would total approximately $1.0 million in the first year and $4.0 million per year thereafter, or $37 million over the 10-year term of the rate freeze. D.T.E. 98-128, at 65. Actual demand cost reductions totaled $4.5 million per year (Exh. KED/EDA-1, at 21-22). Thus, after five years, Colonial customers have benefited from demand cost reductions in the CGA of approximately $22.5 million. Moreover, Colonial customers will continue to experience approximately $2.46 million per year in merger-related gas cost savings as compared to its standalone costs, which are uncontested by the Attorney

General (Exh. KED/EDA-1, at 21, Column E). Therefore, there is no valid argument that the gas-cost savings obtained by the Company have fallen short of the "promises" of the merger cases.

The Attorney General's interpretations of the Department's findings on gas-cost savings in the merger cases are difficult to understand given that the Department applied a "no net harm" standard in both the Colonial and Essex cases, which allows mergers (and their associated rate plans) to go forward upon a finding by the Department that the public interest would be at least as well served by its approval as by its denial. D.T.E. 98-27, at 8. This means that a merger could move forward without any cost savings as long as there was no request to recover merger-related costs through rates. See, Bay State-NIPSCO Acquisition, D.T.E. 98-31, at 44-46.

Thus, in the Essex case, the Department stated that it recognized "the $2.35 million per year in gas cost savings from the Rate Plan are *estimated* and that the magnitude of this value would vary from year to year." D.T.E. 98-27, at 26 (emphasis added). The Department also stated that, "even if, under a worst case scenario, none of the other projected savings were to come to fruition, LDAC savings of this magnitude [$900,000] would be guaranteed to customers."[3] Id. at 28. Thus, simply by committing to the LDAC credit, the joint petitioners met and exceeded the no net harm standard.

Similarly, in D.T.E. 98-128, the Department noted that it "recognize[d] that the $37 million in aggregate gas-related savings is projected over the term of the rate freeze and the actual savings may vary year-to-year." D.T.E. 98-128, at 72. The Department concluded that:

> [T]he Department finds that, as a result of the merger, gas costs savings *are likely* to accrue to Colonial's customers. Therefore, ratepayers *are likely to be better off with respect to gas costs, and certainly no worse off*, than they would be absent the mergers.

Id. (emphasis added). The Department did not make a finding that a certain level of gas costs would be achieved or that it had based its approval on a set level of savings.

Consequently, in terms of the "promised" gas-cost savings referenced by the Attorney General, there are two erroneous and disingenuous claims. First, gas cost savings were not "promised," they were "estimated" as specifically denoted by the Department. D.T.E. 98-27, at 26; D.T.E. 98-128, at 72. Second, there is no basis for the Attorney General's statement that Colonial and Essex customers were "promised gas cost savings in return for foregoing possible base rate reductions related to merger savings in cost categories recovered through base rates during the time not only of the base-rate freeze, but also during the remaining 30 years that the acquisition premium will continue to be amortized." There is simply no such statement or concept set out in the Department's merger orders. The Department's merger orders clearly indicate that estimated gas cost savings were essentially "extra" benefits available to customers as a result of the mergers and were entirely independent of the base-rate freeze and amortization and recovery of the acquisition premiums.

Accordingly, the Attorney General's claim that "promised" gas costs savings have not been achieved, thereby precluding consolidation of the CGA, should be rejected by the Department. Colonial and Essex customers have received significant benefits to date, and will continue to receive benefits moving forward under the consolidated CGA.

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[3] Essex customers received an LDAC credit of $900,000 for each of the first two years of the Rate Plan to bring total gas cost savings to a five-percent reduction immediately following the merger. D.T.E. 98-27, at 6-7.

C. Consolidation of the CGA Will Not Have Any Effect on the Recovery of Merger-Related Costs.

The Attorney General next makes the convoluted and erroneous claim that because the Company is "double collecting" gas acquisition and planning costs through the base rates of Colonial and Essex, the Company is being allowed an "increased" opportunity to offset merger costs during the base-rate freeze period (Attorney General at 9). The Attorney General asserts that the Company is responsible for proving that the merger-related costs Essex and Colonial customers "will be paying" are offset by sufficient merger savings if the Company's proposal is approved (id. at 10). The Attorney General concludes that, since the Company "cannot demonstrate" that Colonial and Essex customers are recovering merger savings at a level equal to or greater than the "additional costs" the Company seeks to recover from them, the Department should reject the Company's proposal (id.). The Attorney General's arguments on this issue represent nothing more than an attempt to create obstacles to the Department's approval of the consolidated CGA and should be rejected.

As discussed in Section II.A above, the Attorney General's rationale regarding the "double collection" of gas acquisition and planning costs exhibits three fundamental flaws. First, the Department has already determined that the amounts charged to Boston Gas for gas acquisition and planning costs beginning November 2003 are the costs that Boston Gas would incur for those activities even in the absence of the mergers, i.e., the amounts collected in Boston Gas rates are not incremental to Boston Gas, and therefore, are not properly charged to Colonial and Essex under the merger orders. D.T.E. 03-40, at 221-224. Second, gas acquisition and planning costs are an operations and maintenance expenses, the recovery of which was locked into Colonial and Essex rates for the rate-

freeze period in the merger proceedings. Third, were the Department to approve the Company's proposal to consolidate the CGA, no change would occur in the amount of gas acquisition and planning costs being recovered by the Company through Colonial and Essex rates since the time of the mergers. The only gas acquisition and planning amounts that have changed are the amounts recovered through Boston Gas rates, which by the Department's findings in D.T.E. 03-40, are Boston Gas costs appropriately recovered from its customers.

Thus, in making this claim, the Attorney General is making a hollow argument designed only to create confusion and delay in this docket.

D. The Company's Proposed Cash Working Capital Allowance Methodology Is Consistent with Department Precedent.

The Attorney General argues that the Department should not approve the Company's CGA consolidation proposal because the cash working capital allowance methodology increases costs without sufficient supporting documentation (Attorney General at 10). According to the Attorney General, the Company's proposal is not based on any methodology previously approved by the Department (id. at 12). The Attorney General asserts that the Company should continue to calculate the working capital allowances for Boston Gas, Colonial and Essex separately until a lead-lag study is supplied by the Company to determine the consolidated working capital requirements (id. at 12). However, on this issue, the Attorney General appears to be generally confused about the operation of Boston Gas Company's CGA working capital calculation, which is not based on a single lag factor, but instead is recalculated with each Boston Gas CGA filing. This methodology was approved by the Department more than ten years ago and has not changed as a result of the Company's proposal in this case. The Company seeks

only to implement the same methodology for Colonial and Essex consistent with prior directives of the Department.

With respect to the purchased gas lag figures used in the working capital allowance, the Attorney General rejects the Company's proposal for calculating the working capital allowance, arguing that "the Company's proposal is not based on any methodology previously approved by the Department . . ." (Attorney General at 12). The Attorney General also contends that the Company's proposal "incorporates changes to all components of the allowance without any supporting study or analysis" (id.). The Attorney General's assertions on this element of the working capital calculation are incorrect.

In fact, Boston Gas has been using the same methodology to calculate its purchased gas working capital allowance since the Department approved its revised CGAC tariff recalculating the lead-lag based upon actual data in Boston Gas Company, D.P.U. 93-60. The Essex tariffs utilized this methodology beginning in 1995. Similarly, for Colonial, the Department has stated:

> The Company is correct in its statement that the Department approved a modification to the calculation of the lag day component of the purchased gas working capital calculation allowing purchased gas lag days ***to be recalculated each year based upon actual CGAC data***. See Boston Gas Company, M.D.P.U. No. 834, § 6.10(6).

Colonial Gas Company, D.P.U. 93-78-A at 5-6 (1993) (emphasis added).[4] Thus, the Department's methodology for calculating the purchased gas working capital allowance will not be changed by the Company's consolidated CGA proposal in this case. The Company will simply apply the Department's methodology to Colonial and Essex in the same way it is applied currently to Boston Gas.

Also, contrary to the Attorney General's claim, the Company performed a purchase-gas lead lag study, which is reflected in Exhibit DTE-1-43. The results shown in Exhibit DTE-1-43 are illustrative only and the Company will submit an updated lead lag study at the time of its next CGA filing that will reflect the actual lag days based upon actual CGAC data. Accordingly, the Attorney General's claims concerning the Company's working capital allowance for purchased gas are without merit and should be rejected.

E. The Company's Proposed Consolidated CGAC Tariff Is Fully Consistent with Tariffs Previously Approved By the Department

The Attorney General claims that the Company's proposed tariff language is "too broad" and the Department should require the Company to modify its language and initiate a generic proceeding to develop or revise model tariffs (Attorney General at 12-13). Although the Company is generally supportive of efforts to simplify and clarify tariff language, there are several issues with the Attorney General's suggestion in this proceeding. These issues are as follows:

First, the Company's proposed tariff is fully consistent with the CGAC and LDAC tariffs for all other companies. The proposed language has sufficed for many years without causing undue customer confusion. Second, the Attorney General did not raise these suggested language changes during the proceeding and the implementation of these changes at this late date has the potential to delay the proceeding given that the Attorney General is requesting participation in this effort. Moreover, the Department's approval of the Company's proposed tariffs does not prevent the Department from making tariff changes at a future date to address the Attorney General's stated concerns.

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[4] The former Colonial Gas Company apparently never implemented this directive.

Accordingly, the Department should not allow the Attorney General to waylay the proceeding with proposals to substantially change tariff language that is well accepted and in place for many years.

F. The Company's Corrected PBOP Reconciliation Adjustment Factor Tariff Resolves the Issues Raised by the Attorney General

The Attorney claims that the Company must correct two errors in its proposed tariff for Pension and Post-Retirement benefits Other Than Pensions ("PBOPs") Reconciliation Adjustment Factor ("PRAF") (Attorney General at 14). In short, these errors are: (1) a reference indicating that amortization of the unamortized PBOP transition obligation would occur over a three-year period instead of a ten-year period; and (2) a reference indicating that carrying charges would be calculated twice on the Unamortized Reconciliation Deferral Pension amount (Attorney General at 14-15). In practice, the Company is amortizing the PBOP transition obligation over a ten-year period through base rates and has calculated carrying charges on Unamortized Pension and Unamortized PBOP Reconciliation Deferrals as directed by the Department in D.T.E. 03-40. However, the Company does recognize that the language submitted in Exhibit KED/AEL-8 referencing the terms "APDA" and "APBOP" is ambiguous. Accordingly, the Company has filed a redlined version of Exhibit KED/AEL-8 on this date clarifying these definitions.

III. CONCLUSION

The record in this proceeding shows that the Company's proposal will serve the public interest and ensure that the price charged to customers for gas service is just and reasonable. The Attorney General's arguments do not address or contradict the Company's calculations of the standalone demand costs, existing demand costs or

demand costs under the consolidated CGA. The Attorney General's arguments also do not address or contradict the Company's evidence on the level of consolidation of the portfolio, the difficulties involved in tracking gas-cost savings or the internal exchange of gas costs and savings among KeySpan customers that is occurring because of the portfolio integration. Accordingly, the Department should approve the Company's request to consolidate the CGAC, LDAC and Distribution Terms and Conditions and to standardize the format for the Company's rate tariffs.

Respectfully submitted,

KEYSPAN ENERGY DELIVERY NEW ENGLAND

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Dated: September 10, 2004